

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Penn Township		County Cass
Audit Date March 31, 2005	Opinion Date October 28, 2005	Date Accountant Report Submitted to State: November 30, 2005		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

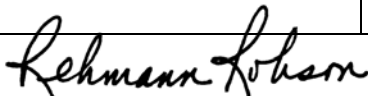
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature 		Zip 48605	

# **PENN TOWNSHIP**

**Vandalia, Michigan**

## **FINANCIAL STATEMENTS**

**For the Year Ended  
March 31, 2005**



**REHMANN ROBSON**

*Certified Public Accountants*

# PENN TOWNSHIP

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# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## **INDEPENDENT AUDITORS' REPORT**

October 28, 2005

Board of Trustees  
Township of Penn  
Vandalia, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Penn Township, Michigan***, as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Penn Township, Michigan, as of March 31, 2005, and the respective changes in financial position thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV.B., the Township adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of and for the year ended March 31, 2005. This results in a change in the format and content of the basic financial statements.

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Penn Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **BASIC FINANCIAL STATEMENTS**

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**PENN TOWNSHIP**  
**Statement of Net Assets**  
**March 31, 2005**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Cash and cash equivalents	\$ 864,842
Investments	133,824
Receivables, net	2,718,668
Other assets	9,114
Capital assets not being depreciated	21,822
Capital assets being depreciated, net	<u>179,441</u>
Total assets	<u>3,927,711</u>
<b>Liabilities</b>	
Accounts payable and accrued expenses	20,940
Long-term liabilities:	
Due in one year	316,020
Due in more than one year	<u>3,361,250</u>
Total liabilities	<u>3,698,210</u>
<b>Net assets</b>	
Invested in capital assets	201,263
Restricted for:	
Debt service	503,515
Unrestricted (deficit)	<u>(475,277)</u>
Total net assets	<u><u>\$ 229,501</u></u>

The accompanying notes are an integral part of these financial statements.



**PENN TOWNSHIP**  
**Statement of Activities**  
**For the Year Ended March 31, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
Legislative	\$ 40,750	\$ -	\$ -	\$ -	\$ (40,750)
General government	90,685	42,714	-	-	(47,971)
Public safety	104,096	19,802	-	-	(84,294)
Public works	37,843	54,588	5,218	244,747	266,710
Health and welfare	15,831	-	-	-	(15,831)
Interest expense	170,709	-	-	-	(170,709)
Unallocated depreciation	17,494	-	-	-	(17,494)
Total governmental activities	<u>\$ 477,408</u>	<u>\$ 117,104</u>	<u>\$ 5,218</u>	<u>\$ 244,747</u>	<u>(110,339)</u>
<b>Changes in net assets</b>					
General revenues:					
Property taxes					126,961
Other revenue					225,677
Unrestricted investment earnings					<u>12,111</u>
Total general revenues					<u>364,749</u>
Change in net assets					254,410
Net assets (deficit), beginning of year, as restated					<u>(24,909)</u>
<b>Net assets, end of year</b>					<u><u>\$ 229,501</u></u>

The accompanying notes are an integral part of these financial statements

# **FUND FINANCIAL STATEMENTS**

**PENN TOWNSHIP**  
**Balance Sheet**  
**Governmental Funds**  
**March 31, 2005**

		Major Debt Service Funds					Totals
		General	Diamond Lake Sewer	Donnell Lake Sewer	Vandalia Water	Nonmajor Funds	
<b><u>ASSETS</u></b>							
<b>Assets</b>							
Cash and cash equivalents	\$	357,471	\$ 142,965	\$ 260,999	\$ 95,284	\$ 8,123	\$ 864,842
Investments		133,824	-	-	-	-	133,824
Receivables:							
Accounts		48,886	-	-	-	-	48,886
Taxes		6,153	-	-	-	-	6,153
Special assessments		-	651,354	1,249,260	491,385	259,630	2,651,629
Deferred loans		-	-	-	-	12,000	12,000
Due from other funds		-	-	-	-	26,948	26,948
Prepaid expenditures		9,114	-	-	-	-	9,114
<b><u>TOTAL ASSETS</u></b>	\$	555,448	\$ 794,319	\$ 1,510,259	\$ 586,669	\$ 306,701	\$ 3,753,396
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
<b>Liabilities</b>							
Accounts payable	\$	17,084	\$ -	\$ -	\$ -	\$ -	\$ 17,084
Due to other funds		-	-	-	26,948	-	26,948
Deferred revenue		1,375	651,354	1,249,260	491,385	271,630	2,665,004
Total liabilities		18,459	651,354	1,249,260	518,333	271,630	2,709,036
<b>Fund balances</b>							
Reserved for prepaid expenditures		9,114	-	-	-	-	9,114
Unreserved, undesignated		527,875	142,965	260,999	68,336	-	1,000,175
Unreserved, undesignated, reported in non-major: Debt service funds		-	-	-	-	35,071	35,071
Total fund balances		536,989	142,965	260,999	68,336	35,071	1,044,360
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	\$	555,448	\$ 794,319	\$ 1,510,259	\$ 586,669	\$ 306,701	\$ 3,753,396

The accompanying notes are an integral part of these financial statements.

**PENN TOWNSHIP**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**March 31, 2005**

Fund balances - total governmental funds	\$ 1,044,360
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	21,822
Add: capital assets being depreciated	443,422
Deduct: accumulated depreciation	(263,981)

Long-term receivables are not current financial resources and therefore are deferred in the funds.

Add: deferred long-term receivables	2,665,004
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(3,677,270)
Deduct: accrued interest on bonds payable	(3,856)

Net assets of governmental activities	<u><u>\$ 229,501</u></u>
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The accompanying notes are an integral part of these financial statements.

**PENN TOWNSHIP**  
**Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended March 31, 2005**

	Major Debt Service Funds					Totals
	General	Diamond Lake Sewer	Donnell Lake Sewer	Vandalia Water	Nonmajor Funds	
<b>Revenue</b>						
Property taxes	\$ 84,641	\$ -	\$ -	\$ -	\$ 42,320	\$ 126,961
Special assessments	-	191,002	252,842	45,091	25,350	514,285
Licenses and permits	42,114	-	-	-	-	42,114
Intergovernmental	99,327	97,545	-	-	-	196,872
Grants and contributions	21,210	-	-	-	-	21,210
Charges for services	19,027	1,400	37,879	6,000	9,309	73,615
Interest	12,111	737	3,314	785	382	17,329
Other	7,595	-	-	-	-	7,595
Total revenue	286,025	290,684	294,035	51,876	77,361	999,981
<b>Expenditures</b>						
Current:						
Legislative	40,750	-	-	-	-	40,750
General government	88,644	-	-	-	-	88,644
Public safety	88,939	-	-	-	-	88,939
Health and welfare	15,831	-	-	-	-	15,831
Public works	37,843	-	-	-	-	37,843
Debt service:						
Principal	-	234,070	150,000	15,000	9,000	408,070
Interest and fiscal charges	-	22,220	105,837	23,895	19,238	171,190
Capital outlay	29,672	-	-	-	-	29,672
Total expenditures	301,679	256,290	255,837	38,895	28,238	880,939
Revenue over (under) expenditures	(15,654)	34,394	38,198	12,981	49,123	119,042
<b>Other financing sources (uses)</b>						
Transfers in	42,320	-	-	-	-	42,320
Transfers (out)	-	-	-	-	(42,320)	(42,320)
Total other financing sources (uses)	42,320	-	-	-	(42,320)	-
Revenue and other sources over expenditures and other uses	26,666	34,394	38,198	12,981	6,803	119,042
Fund balances, beginning of year	510,323	108,571	222,801	55,355	28,268	925,318
<b>Fund balances, end of year</b>	<b>\$ 536,989</b>	<b>\$ 142,965</b>	<b>\$ 260,999</b>	<b>\$ 68,336</b>	<b>\$ 35,071</b>	<b>\$ 1,044,360</b>

The accompanying notes are an integral part of these financial statements.

**PENN TOWNSHIP**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended March 31, 2005**

Net change in fund balances - total governmental funds	\$ 119,042
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	12,474
Deduct: depreciation expense	(17,494)

Governmental funds recognize revenue as it becomes measurable and available. Certain amounts collected in the current year were earned in prior periods, but did not become available until the current period, when they were recognized in the funds.

Add: fire run charges deferred for availability	1,375
Deduct: collection of special assessments	(269,538)

Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing long-term debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	408,070
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest payable on bonds	<u>481</u>
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Change in net assets of governmental activities	<u><u>\$ 254,410</u></u>
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The accompanying notes are an integral part of these financial statements.

**PENN TOWNSHIP**  
**Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the Year Ended March 31, 2005**

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Over (under) Budget</u>
<b>Revenue</b>			
Property taxes	\$ 135,500	\$ 84,641	\$ (50,859)
Licenses and permits	24,000	42,114	18,114
Intergovernmental	92,000	99,327	7,327
Grants and contributions	-	21,210	21,210
Charges for services	23,200	19,027	(4,173)
Interest	12,000	12,111	111
Other	4,000	7,595	3,595
	<u>290,700</u>	<u>286,025</u>	<u>(4,675)</u>
<b>Expenditures</b>			
Legislative - Township Board	<u>39,450</u>	<u>40,750</u>	<u>1,300</u>
General government:			
Supervisor	33,400	34,612	1,212
Clerk	14,050	13,806	(244)
Elections	3,000	2,438	(562)
Legal	7,000	2,180	(4,820)
Board of review	1,100	665	(435)
Treasurer	22,100	19,630	(2,470)
Town Hall	10,030	11,730	1,700
Cemetery	6,000	3,583	(2,417)
Total general government	<u>96,680</u>	<u>88,644</u>	<u>(8,036)</u>
Public safety:			
Fire	67,600	50,812	(16,788)
Building inspection	22,770	38,094	15,324
Planning	1,150	33	(1,117)
Zoning	550	-	(550)
Total public safety	<u>92,070</u>	<u>88,939</u>	<u>(3,131)</u>
Health and welfare - ambulance	<u>14,500</u>	<u>15,831</u>	<u>1,331</u>
Public works - roads	<u>35,000</u>	<u>37,843</u>	<u>2,843</u>

continued...

**PENN TOWNSHIP**  
**Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances - Budget and Actual (concluded)**  
**General Fund**  
**For the Year Ended March 31, 2005**

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Over (under) Budget</u>
<b>Expenditures (concluded)</b>			
Capital outlay	\$ 13,000	\$ 29,672	\$ 16,672
Total expenditures	<u>290,700</u>	<u>301,679</u>	<u>10,979</u>
Revenue (under) expenditures	-	(15,654)	(15,654)
<b>Other financing sources</b>			
Transfers in	<u>-</u>	<u>42,320</u>	<u>42,320</u>
Revenue and other sources over expenditures	-	26,666	26,666
Fund balances, beginning of year	<u>-</u>	<u>510,323</u>	<u>510,323</u>
<b>Fund balances, end of year</b>	<u><u>\$ -</u></u>	<u><u>\$ 536,989</u></u>	<u><u>\$ 536,989</u></u>

The accompanying notes are an integral part of these financial statements.



**PENN TOWNSHIP**  
**Statement of Fiduciary Assets and Liabilities**  
**March 31, 2005**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$          137</u>
<b>Liabilities</b>	
Due to other governmental units	<u>\$          137</u>

The accompanying notes are an integral part of these financial statements.

## **NOTES to the FINANCIAL STATEMENTS**

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Penn Township (the “government” or “Township”) is a municipal corporation governed by an elected supervisor and a six-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Diamond Lake Sewer debt service fund.* This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of Diamond Lake Sewer administered by the Cassopolis Area Utilities Agency.

*Donnell Lake Sewer debt service fund.* This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Donnell Lake Sewer administered by the Cassopolis Area Utilities Agency.

*Vandalia Water debt service fund.* This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Vandalia Water fund administered by the Cassopolis Area Utilities Agency.

Additionally, the government reports the following fund type:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

The *agency fund* accounts for assets held for other governments in an agency capacity.

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### **D. Assets, liabilities and net assets/equity**

#### ***1. Deposits and investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

#### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### ***3. Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Land improvements	20
Vehicles	3-20
Equipment	3-20

#### **4. *Compensated absences***

The Township's employees are all part-time and are not entitled to any paid vacation or sick leave. Therefore, compensated absences are not accrued in the accompanying financial statements.

#### **5. *Long-term obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities.

#### **6. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary information**

Annual budgets are adopted at the functional level for all governmental fund types each fiscal year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to April 1st of each year.

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

### **B. Excess of expenditures over appropriations**

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended March 31, 2005, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund:</b>			
General government - Supervisor	\$ 3,400	\$ 34,612	\$ 1,212
<b>Legislative - Township Board</b>	39,450	40,750	\$ 1,300
Town Hall	10,030	11,730	1,700
Public safety - Building inspection	22,700	38,094	15,324
Health and welfare - Ambulance	14,500	15,831	1,331
Public works - Roads	35,000	37,843	2,843
Capital outlay	13,000	29,672	16,672

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

At year end, the carrying amount of deposits for the government was \$482,693. The bank balance was \$483,359. Of the bank balance, \$210,456 was covered by federal depository insurance. The remaining balance of \$272,903 was uninsured and uncollateralized.

The government believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

The government's investments consisted entirely of governmental money market accounts, which are uncategorized as to risk.

A reconciliation of cash as shown on the Statement of Net Assets to deposits as classified for note disclosure purposes is as follows:

#### Statement of Net Assets:

Cash and cash equivalents	\$ 864,842
Investments	133,824

#### Statement of Fiduciary Net Assets:

Cash and cash equivalents	<u>137</u>
	<u><b>\$ 998,803</b></u>



# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### Classification of Deposit and Investments:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 482,693
Governmental money market accounts (Fifth Third LUG)	<u>516,110</u>
	<u><b>\$ 998,803</b></u>

### B. Receivables

Receivables as of year end are as follows:

	<b>General Fund</b>	<b>Diamond Lake Debt Service Fund</b>	<b>Donnell Lake Debt Service Fund</b>	<b>Vandalia Water Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>	<b>Amounts Not Expected To Be Collected Within One Year</b>
Accounts receivable	\$ 48,886	\$ -	\$ -	\$ -	\$ -	\$ 48,886	\$ -
Special assessments receivable	-	651,354	1,249,260	491,385	259,630	2,651,629	2,383,464
Taxes receivable	6,153	-	-	-	-	6,153	-
Loans receivable	-	-	-	-	12,000	12,000	12,000
	<u>\$ 55,039</u>	<u>\$ 651,354</u>	<u>\$ 1,249,260</u>	<u>\$ 491,385</u>	<u>\$ 271,630</u>	<u>\$ 2,718,668</u>	<u>\$ 2,395,464</u>

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### C. Capital assets

Capital assets activity for the year ended March 31, 2005, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 21,822	\$ -	\$ -	\$ 21,822
Capital assets being depreciated:				
Land improvements	7,000	-	-	7,000
Buildings and improvements	93,448	-	-	93,448
Equipment	-	12,474	-	12,474
Vehicles	330,500	-	-	330,500
Total capital assets being depreciated	430,948	12,474	-	443,422
Less accumulated depreciation for:				
Land improvements	1,400	350	-	1,750
Buildings and improvements	65,787	1,969	-	67,756
Equipment	-	-	-	-
Vehicles	179,300	15,175	-	194,475
Total accumulated depreciation	246,487	17,494	-	263,981
Total capital assets being depreciated, net	184,461	(5,020)	-	179,441
Governmental activities capital assets, net	\$ 206,283	\$ (5,020)	\$ -	\$ 201,263

Depreciation expense of \$17,494 was charged to the function "unallocated depreciation".

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### D. Payables

Accounts payable and accrued liabilities as of year end are as follows:

Accounts payable (General Fund)	\$ 17,084
Accrued interest on long-term debt	<u>3,856</u>
	<b><u>\$ 20,940</u></b>

### E. Long-term debt

In 1991, 1997 and 2000 special assessment districts were established consisting of portions of Penn, Lagrange, Jefferson and Calvin Townships, all in Cass County, for the purpose of providing wastewater sewer systems to the Diamond and Donnell Lake areas and the Village of Vandalia. These projects are financed through special assessments and one-time tap fees levied on benefiting property owners.

In connection with the above projects, the County issued the following County of Cass, State of Michigan, Cassopolis Area Utilities Authority (Limited Tax General Obligation) Bonds. These bonds mature serially and are secured primarily by a contractual obligation of the four local units to pay the annual installments due, plus interest, and secondarily by the full faith and credit of the County.

The following general obligation bonds are outstanding as of March 31, 2005:

<b><u>Cass County Bond Issue</u></b>	<b><u>Interest Rate</u></b>	<b><u>Year of Maturity</u></b>	<b><u>Original Amount</u></b>	<b><u>Township Balance</u></b>
Donnell Lake Sewer	4.6 to 5.5%	2016	\$ 3,030,000	\$ 1,900,000
Diamond Lake Sewer	2.42%	2010	3,024,500	865,270
Vandalia Sewer	4.7 to 8.0%	2039	449,000	396,000
Vandalia Water	4.50%	2041	575,000	<u>516,000</u>
<b>Total</b>				<b><u>\$ 3,677,270</u></b>

The changes in general long-term debt are as follows:

Balance, beginning of year	\$ 4,085,340
Payments	<u>408,070</u>
<b>Balance, end of year</b>	<b><u>\$ 3,677,270</u></b>
<b>Due within one year</b>	<b><u>\$ 316,020</u></b>

# **PENN TOWNSHIP, MICHIGAN**

## **Notes To Financial Statements**

The annual principal and interest requirements to retire this debt as of March 31, 2005 are as follows:

	Principal	Interest	Total
2006	\$ 316,020	\$ 156,553	\$ 472,573
2007	343,650	145,383	489,033
2008	344,650	132,989	477,639
2009	344,650	120,195	464,845
2010	344,650	107,403	452,053
2011-2015	1,145,650	360,605	1,506,255
2016-2020	305,000	150,102	455,102
2021-2025	133,000	110,833	243,833
2026-2030	138,000	79,566	217,566
2031-2035	138,000	47,834	185,834
2036-2040	114,000	16,062	130,062
2041	10,000	499	10,499
Total	<u>\$ 3,677,270</u>	<u>\$ 1,428,024</u>	<u>\$ 5,105,294</u>

## **IV. OTHER INFORMATION**

### **A. Property taxes**

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the General Fund and Fire Millage Special Revenue Fund reflect the 2004 Township levies of .7349 mills and .3673 mills, respectively, on the taxable valuation of property located in the Township as of the preceding December 31. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$108,865,251. The 2004 levy became a lien on properties on December 1, 2004, and was substantially collected in early 2005. Taxes became delinquent on March 1, 2005.

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### B. Restatements

As of and for the year ended March 31, 2005, the Township implemented the following Governmental Accounting Standards Board pronouncements:

#### Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

#### Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Township is required to implement the new requirements no later than the fiscal year ending March 31, 2005.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
  - Schedules to reconcile the fund financial statements to the government-wide financial statements;
  - Notes to the basic financial statements;
- Required supplementary information, including certain budgetary schedules.

# PENN TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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As a result of implementing these pronouncements for the fiscal year ended March 31, 2005, the following restatements were made to beginning fund balance and net asset accounts:

*Government-wide financial statements.* Beginning net assets for governmental activities was determined as follows:

Fund balance of governmental funds as of 3/31/04	\$ 925,318
Add: governmental capital assets net as of 3/31/04	206,283
Deduct: accrued interest on long-term debt	(4,337)
Deduct: long-term debt	(4,085,340)
Add: adjustment for deferred long-term receivables	<u>2,933,167</u>

<b>Governmental net assets (deficit), restated, as of 4/1/04</b>	<b><u>\$ (24,909)</u></b>
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**COMBINING FUND FINANCIAL  
STATEMENTS**

**PENN TOWNSHIP**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**March 31, 2005**

	<u>Special Revenue Funds</u>		<u>Debt</u>	
	<u>Housing</u>	<u>Fire</u>	<u>Service</u>	
	<u>Rehabilitation</u>	<u>Department</u>	<u>Vandalia</u>	
	<u>Grant</u>	<u>Millage</u>	<u>Sewer</u>	<u>Totals</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 8,123	\$ 8,123
Special assessments receivable	-	-	259,630	259,630
Due from other funds	-	-	26,948	26,948
Deferred loans receivable	12,000	-	-	12,000
<b><u>TOTAL ASSETS</u></b>	<b>\$ 12,000</b>	<b>\$ -</b>	<b>\$ 294,701</b>	<b>\$ 306,701</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Deferred revenue	\$ 12,000	\$ -	\$ 259,630	\$ 271,630
<b>Fund balances</b>				
Unreserved, undesignated	-	-	35,071	35,071
<b><u>TOTAL LIABILITIES</u></b>	<b>\$ 12,000</b>	<b>\$ -</b>	<b>\$ 294,701</b>	<b>\$ 306,701</b>
<b><u>AND FUND BALANCES</u></b>				



**PENN TOWNSHIP**  
**Combining Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances**  
**Debt Service Funds**  
**For the Year Ended March 31, 2005**

	<u>Special Revenue Funds</u>		<u>Debt</u>	
	<u>Housing</u>	<u>Fire</u>	<u>Service</u>	
	<u>Rehabilitation</u>	<u>Department</u>	<u>Vandalia</u>	
	<u>Grant</u>	<u>Millage</u>	<u>Sewer</u>	<u>Totals</u>
<b>Revenue</b>				
Property taxes	\$ -	\$ 42,320	\$ -	\$ 42,320
Special assessments	-	-	25,350	25,350
Charges for services	-	-	9,309	9,309
Interest and other	-	-	382	382
Total revenue	-	42,320	35,041	77,361
<b>Expenditures</b>				
Debt service:				
Principal	-	-	9,000	9,000
Interest and fiscal charges	-	-	19,238	19,238
Total expenditures	-	-	28,238	28,238
Revenue over expenditures	-	42,320	6,803	49,123
<b>Other financing (uses)</b>				
Transfer to General Fund	-	(42,320)	-	(42,320)
Revenue over expenditures and other uses	-	-	6,803	6,803
Fund balance, beginning of year	-	-	28,268	28,268
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 35,071</b>	<b>\$ 35,071</b>

**PENN TOWNSHIP**  
**Combining Statement of Fiduciary Assets and Liabilities**  
**Fiduciary Funds**  
**March 31, 2005**

		<u>Agency Funds</u>		
		<b>Current Property Tax Collection</b>	<b>Delinquent Property Tax Collection</b>	<b>Total</b>
<b>Assets</b>				
	Cash and cash equivalents	\$ 137	\$ -	\$ 137
<b>Liabilities</b>				
	Due to other governmental units	\$ 137	\$ -	\$ 137

**PENN TOWNSHIP**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended March 31, 2005**

	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, End of Year</u>
<b><u>CURRENT PROPERTY TAX COLLECTION FUND</u></b>				
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 889,295</u>	<u>\$ 3,894,942</u>	<u>\$ 4,784,100</u>	<u>\$ 137</u>
<b>Liabilities</b>				
Due to other governmental units	<u>\$ 889,295</u>	<u>\$ 3,894,942</u>	<u>\$ 4,784,100</u>	<u>\$ 137</u>
 <b><u>DELINQUENT PROPERTY TAX COLLECTION FUND</u></b>				
<b>Assets</b>				
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 62,061</u>	<u>\$ 62,061</u>	<u>\$ -</u>
<b>Liabilities</b>				
Due to other governmental units	<u>\$ -</u>	<u>\$ 62,061</u>	<u>\$ 62,061</u>	<u>\$ -</u>
 <b><u>TOTALS - ALL AGENCY FUNDS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 889,295</u>	<u>\$ 3,957,003</u>	<u>\$ 4,846,161</u>	<u>\$ 137</u>
<b>Liabilities</b>				
Due to other governmental units	<u>\$ 889,295</u>	<u>\$ 3,957,003</u>	<u>\$ 4,846,161</u>	<u>\$ 137</u>